Directorate of Intelligence

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European Review

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Special Issue

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27 February 1985

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Prime Minister Mulroney's Conservative government came to power pledging to reduce Ottawa's direct involvement in the Canadian economy by selling as many of the Federal Government's Crown corporations as possible to the private sector. Since their election last September, however, the Tories have found that many of the Crowns are in such poor financial shape that private interests are not anxious to acquire them. Moreover, the public views some of the corporations as a national legacy. Thus, financial realities and popular concerns could stymie Ottawa's effort to reduce direct involvement in the national economy.

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On 8 January the Greek Council for Defense and Foreign Affairs (KYSEA) approved a new defense doctrine. The basis of the new doctrine is a formal recognition that Turkey, rather than the Warsaw Pact, poses the more serious threat to Greek security. Although we have no indication yet of detailed plans to implement the new defense policy, we believe it may do little more than formalize shifts in force deployments that have occurred over the last 10 years and give impetus to further modernization efforts.

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Warsaw will begin raising food prices probably, in March, as part of its plan to hike overall retail prices by 12 to 13 percent this year. The regime successfully broke the taboo on food price hikes in 1982, but lingering fear of worker reaction has blocked price increases sufficient to reduce budget subsidies. Although Warsaw is now more astute in blunting public reaction, the price hikes could still provide the occasion for disgruntled Poles to demonstrate unhappiness with the regime's political and economic policies.

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views.

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Briefs

Canada

The Tories and Acid Rain

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Tory Environment Minister Suzanne Blais-Grenier recently said that Ottawa no longer would be a leader in multilateral forums in pushing for controls on sulfur dioxide emissions but would instead seek bilateral abatement arrangements with Washington. Prime Minister Mulroney's endorsement of this position and his public assertion that Canada must reduce sulfur dioxide production before it can expect the United States to follow suit signals an end to the confrontational approach to acid rain pursued by the former Liberal government. Ottawa's new approach apparently recognizes the high cost of eliminating the pollutant, Canada's own role with regard to emissions, the fact that the Liberals' approach bore little fruit, and the Tories' desire for a less acrimonious relationship with Washington.

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Despite this policy shift, both Mulroney and External Affairs Minister Joe Clark have told US officials that they consider acid rain to be the top issue on the bilateral agenda, and Mulroney has said that it is the first item he wants to discuss with President Reagan in March. The Tories are confronted by a powerful domestic environmental lobby and need to show some forward movement to preclude attack by the media and Parliament. In the past, some Canadian officials have indicated interest in such options as a mutual cap at current levels of production, intensified joint research into the causes of acid rain, or a referral of the issue to the Canadian-US International Joint Commission. One or more of these proposals may resurface, but Ottawa almost certainly expects some concession from Washington now that Canada has adopted a less contentious approach to acid rain, has relaxed its international pressure on the United States, and has concluded an arrangement with the provinces to reduce emissions in Canada.

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Strengthening Pacific Ties

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One of the most marked areas of continuity between Canada's new Conservative government and its Liberal predecessor is a concern for enhancing the country's relations in the Pacific region generally and specifically with Japan. Tory External Affairs Minister Joe Clark's visit to Japan in December—only six months after a similar trip by his predecessor—was designed to underscore these aims. Clark urged the Japanese to increase purchases of Canadian coal and invited them to take advantage of Canada's relaxed foreign investment controls, particularly by investing more in the automobile industry. Clark assured the Japanese that the closer trade ties that his government is seeking with the United States would neither undercut Canadian-Japanese economic relations nor violate GATT regulations. Clark also told Japanese officials that he expected Ottawa henceforth would give as much attention to the Pacific as it focuses on Europe. [redacted] 25X1

The Tory government recently underlined its interest in increasing Canada's political presence in the Pacific by offering to assist Washington in convincing the Government of New Zealand to continue to permit port calls by nuclear-powered US ships. Canadian officials also have said that they are mulling over the possibility of adopting a slightly enlarged Canadian naval role in the Pacific—perhaps several destroyers—"as a visible contribution to regional security." Ottawa almost certainly foresees no more than a token addition to its Pacific naval force, but these two developments suggest that the Tories consider an enhanced political role in the Pacific to be a necessary complement to efforts to cultivate the region economically. [redacted] 25X1

The Extraterritorial Act [redacted] 25X1

In late December, Parliament passed the Foreign Extraterritorial Measures Act primarily to curb what Canadians view as the unacceptable international application of US laws on US multinational corporations operating in their country. The law gives the government wide-ranging powers, including permission for the attorney general to prohibit any Canadian citizen or corporation from producing records for any foreign court and, if necessary, to seize those records. A Canadian firm can also be prohibited from complying with foreign laws. In addition, the attorney general can prohibit enforcement of an external antitrust judgment. [redacted] 25X1

The Tories passed the legislation even though there are few pressing extraterritorial issues between Canada and the United States. The act does not force the government to take action but paves the way for it to respond quickly if it perceives Canadian interests are threatened. We believe Ottawa probably will continue to seek to resolve extraterritorial issues through diplomatic channels and to use the act as a "last resort," but it is likely to benefit Prime Minister Mulroney politically by showing Canadian voters that he is prepared, if necessary, to stand up to Washington. [redacted] 25X1

Senate Brouhaha [redacted] 25X1

The Canadian Senate is blocking a bill authorizing Ottawa to borrow $14 billion for use in the remainder of this fiscal year and for 1985-86. The bill was passed unanimously by the House of Commons in January, but has been stalled by the Liberal-dominated Senate ostensibly because the government has failed to table spending estimates usually presented by early February. Tory Finance Minister Michael Wilson claims that the government's cash reserve is dwindling—it dropped by $415 million between 8 and 15 February—and has attacked the Senate publicly for "playing fast and loose with the taxpayers' money." [redacted] 25X1

The Canadian Senate is an appointive body that historically has been used by the governing party as a source of sinecures for longtime party supporters. The Senate's Liberal majority, however, includes many able politicians prominent in the Trudeau era—including former External Affairs Minister Alan MacEachen and Clerk of the Privy Council Michael Pitfield—and it apparently is determined to play a role that belies the body's traditional rubberstamp reputation. The Senate is unlikely to block the government indefinitely—although such action would be constitutional—but it has succeeded in serving notice to the inexperienced Tory government that on specific issues there may be more than one level of opposition. 25X1

Portugal

Social Democratic Leadership Change Bolsters Government 25X1

Rui Machete's replacement earlier this month of Mota Pinto as Social Democratic Party (PSD) leader and Deputy Prime Minister should shore up the coalition headed by Socialist Prime Minister Soares. The Socialists and Social Democrats have bickered over economic policy since they began the coalition in June 1983, and many Social Democrats want their own candidate in the presidential election in December—a race in which Soares is an all but announced candidate. An even greater challenge to the coalition, however, had been wide Social Democratic dissatisfaction with the temporizing leadership of Mota Pinto, who was a principal advocate of continued partnership with the Socialists. 25X1

Many Social Democrats who had thought Mota Pinto was too subservient to Soares are likely to regard Rui Machete as a more effective advocate for the PSD within the coalition, although he is unlikely to demand more than Soares can give. Both Soares and Rui Machete would probably like to keep the coalition intact beyond 15 June—six months before the presidential election—when President Eanes no longer can constitutionally dissolve the government and call for an early election in which a new party loyal to him could run. 25X1

Turkey

National Salvation Party (NSP) Leaders Acquitted 25X1

Necmettin Erbakan, former leader of the Islamic fundamentalist party, and 22 of his party subordinates have been acquitted of conspiracy to establish an Islamic state in Turkey by a martial law court. The same court had convicted Erbakan and his associates in 1983, but the Military Court of Appeals had reversed the decision and ordered a new trial. Erbakan was arrested during the military coup of September 1980, along with the leaders of other political parties. 25X1

Foreign and domestic political factors may have played a role in the court's decision to acquit the defendants. Among them were several former ministers, including Prime Minister Turgut Ozal's brother Korkut, who served as Minister of the Interior in 1977. Korkut, along with several influential Saudi financiers, is a shareholder in Turkey's first "Islamic" financial services company and is believed to have some political connections with the Saudis. Turgut Ozal himself ran for parliament on the NSP ticket in 1977 as an allied independent, and several other powerful figures in Ozal's Motherland Party have close ties to the NSP. A conviction of the NSP defendants probably would have been politically embarrassing for the Ozal government, at home and in the Middle East. [redacted] 25X1

Poland

Energy Problems [redacted] 25X1

Coal shortages this winter have prompted the government to cut back energy usage in industrial plants. Reserves have not been sufficient mainly because of increased consumption due to the harsh weather, but shortfalls in the industrial energy conservation program and increased coal exports have been contributing factors. Foreign sales rose to a record 43 million tons in 1984—an increase of 8 million tons over 1983 exports; two-thirds of the coal was sold to Western markets enabling Poland to increase its hard currency revenues despite lower world coal prices and competitive price-cutting. The Poles more than doubled sales to the United Kingdom, as Warsaw took advantage of the coal miners' strike to increase sales. [redacted] 25X1

The consumer so far has not been directly affected by the coal shortage, but continued harsh weather could lead to restrictions on energy use by households. Domestic shortages could prompt cutbacks in coal exports in 1985, with a consequent decrease in hard currency earnings. [redacted] 25X1

Romania

Dissent in Literary Circles [redacted] 25X1

Unusually bold—albeit indirect—criticism of President Ceausescu and his policies appearing in at least two cultural journals this winter illustrates growing frustration with his autocratic and capricious rule:

- In December an editor and a poet were fired for poems implicitly critical of the system and specifically of Ceausescu's ban on abortion.
- In January, Augustin Buzura—an editor of a provincial cultural journal—wrote three essays that contained critical allusions to Ceausescu and his leadership style.

One essay described an increasingly irrational "fictional" dictator whose death leads the populace to the realization that his massive power had come only from the climate of fear he had created. [redacted] 25X1

Such transparent double entendre rarely gets past Ceausescu's cultural watchdogs. Moreover, most literary figures are usually unwilling to risk the reprisals that follow such antiregime satire. Buzura, apparently known for testing the limits of artistic license, may have overstepped them this time and could face sanctions. The regime is very sensitive to popular attitudes and will move quickly to eliminate such dissent before it becomes widespread. [redacted] 25X1

Articles

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Canada: Privatization of the Crown Corporations

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Prime Minister Mulroney's Conservative government came to power pledging to reduce Ottawa's direct involvement in the Canadian economy by selling as many of the Federal Government's Crown corporations [1] as possible to the private sector. Since their election last September, however, the Tories have found that many of the Crowns are in such poor financial shape that private interests are not anxious to acquire them. Moreover, the public views some of the corporations as a national legacy—the transcontinental railroad system is an example. Thus, financial realities and popular concerns that corporations essential to the country's sense of identity may be sold off indiscriminately or, even worse, to foreigners could stymie Ottawa's effort to reduce direct involvement in the national economy.

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The Intangibles: The Canadian Propensity for Public Enterprise

Since the Canadian federal system was organized in 1867, the central government has played a pivotal role in managing the national economy. Because of the young country's vast size and sparse population, Ottawa took it upon itself to provide the economic wherewithal to hold the country together; in turn, a pervasive, popular mythology quickly developed that accepted the role as a primary task of the Federal Government. Ottawa provided, for example, the huge financial and land subsidies for construction of a transcontinental railway system to ensure that the country's lines of trade and commerce developed in an east-west rather than a north-south direction. In the 20th century, Ottawa intervened directly in the economy beginning with the formation of Canadian National Railways (CNR) in 1919.

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Since then, Ottawa has increasingly used Crown corporations to promote growth and diversification to

[1] A Crown corporation is a company wholly owned by the Canadian Government.

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The Crowns: Variety and Roles in the Economy

Over the last two decades, public corporations have grown both in numbers and importance. Ottawa now estimates that there are well over 400 federally owned or controlled corporations. Of this number, approximately 178 are commercial Crown corporations made up of 69 parent companies and 109 wholly owned subsidiaries.[a] *The Federal Government also has either a majority or minority stake in more than 100 private-sector companies.*

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Crown corporations, which account for an estimated 12 percent of Canada's GNP, are involved in such diverse industries as transportation, broadcasting, wheat sales, and manufacturing. As of June 1984, there were 138,000 employees of Federal Government enterprises, or 1 percent of the Canadian labor force. Ottawa's corporations are divided generally into four types:

- Development *corporations, such as the Economic Council of Canada, which advise the government on economic policy and regulate private industry.*
- Agency *corporations, such as the Canadian Dairy Commission, which carry out commercial tasks for the government.*
- Unclassified *corporations, such as the Bank of Canada and the Canadian Wheat Board, which operate under their own charters and carry out commercial activities.*
- Proprietary *corporations, such as Petro-Canada, which are ongoing business concerns that sometimes pay taxes to the government.* 25X1

[a] *There are also approximately 205 Crown corporations owned or controlled by the 10 provincial governments.*

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unite the nation, and to protect Canada's "cultural identity." The formation of the Canadian Broadcasting Company in 1936 and Air Canada in 1937 are, for example, etched in the popular imagination as nation-building measures. Similarly, according to the *Financial Post*, the public anticipates that Ottawa will actively foster the growth of high-technology industry.

Goal of Public Corporations

Crown corporations—Air Canada and CNR, for example—were originally created because the private sector failed to provide essential economic infrastructure, but, since 1965, Ottawa's public corporations have become increasingly controversial. Public corporations formed to keep afloat industries deemed unprofitable by the private sector have increased. Even more controversial has been the entry of public companies into the oil and gas industries where there are many profitable private firms—with the object of giving the government some control over the industry's development or of preventing what Ottawa considered "excessive" foreign ownership in the energy sector.

As federally owned public corporations have proliferated, the political debate has turned to Ottawa's role in managing the Canadian economy. Critics—particularly in the Conservative party—have charged that government ownership of energy firms is unnecessary given the private sector's performance. Government ownership of unprofitable firms to maintain employment is attacked by some as a waste of resources. In addition, the public has come increasingly to view corporations as profit-or-loss generators rather than as policy instruments. Thus, as the government has tried to reduce its budget deficit, there has been growing interest in privatizing companies that are draining government resources.

Major Candidates for Privatization

Canadian National Railways, Ottawa's largest and oldest Crown corporation, has been mentioned by Tory Transport Minister Mazankowski as a potential candidate for at least partial private ownership. The railroads have had financial problems in the past, but last year made a record $180 million profit,[2] the result of a 14-percent increase in rail traffic. Profits would have been over $230 million, except for new accounting rules regarding foreign exchange transactions. In 1985, profits will probably be lower because CNR's Marine unit will become a separate corporation. CNR faces other problems that might discourage private investors. The railroad faces a possibly serious debt problem as it attempts to expand the western rail system. In addition, its rate of return on capital is low by industry standards. 25X1

Air Canada has long been considered a candidate for private ownership. Created in 1937, Air Canada has grown into one of the world's leading international carriers. In addition, it has diversified into other services such as consulting and tourist services. In 1978, legislation canceled much of Air Canada's debt to Canadian National Railways and the Federal Government. In the process, the government bought $277 million of shares and took over full ownership. Air Canada is expected to show little or no improvement in 1985 from its $2.9 million profit in 1984, largely because of the growth of discount fares. Air Canada has been profitable since 1977 and has not had to borrow from the government. 25X1

The government has been moving toward deregulation of the airline industry and has considered it inappropriate that the dominant firm be government owned. So far, Air Canada's employees have expressed interest in purchasing some shares, but there has not been much interest elsewhere. 25X1

The *Canadian Development Investment Corporation* (CDIC) was created in 1982 to manage several Crown corporations and get them in shape to be sold. With assets of about $4.5 billion, CDIC oversees companies such as Canadair, de Havilland Aircraft, Eldorado Nuclear, and Teleglobe. Teleglobe, an international communications carrier, is the only one that is consistently profitable. 25X1

[2] US dollars are used in this article. 25X1

Canadair, which manufactures corporate jets, is dependent on the success of its Challenger jet for its survival. The firm has no debt, but it has not had enough orders to make the jet stand up to international competition. Canadair lost $1.4 billion in 1983.

De Havilland Aircraft's future may depend on how extensively the government provides export financing deals for its aircraft. De Havilland lost $189.2 million in 1983 and $12.5 million in the first six months of 1984. It may be difficult to privatize de Havilland because of pressure from unions that are afraid new owners might close or move existing operations.

The government faces two problems in privatizing Canadair and de Havilland. According to the *Financial Post*, many Canadians think that Canada should have an aerospace industry, but, because the private sector has supported one, they believe government should remain in the industry. In addition, since it is probable that a foreign aircraft manufacturer—possibly Boeing—would buy both companies, the Mulroney government would be open to charges that it is selling Canadian industries to foreigners.

Eldorado Nuclear is a viable candidate for privatization. It is the world's fourth-largest uranium producer and considered one of the most efficient. Eldorado posted a small profit in 1983 but was suffering a loss after the first six months of 1984, because of soft uranium prices.

Teleglobe Canada is one of the most salable assets of the Canadian Government. As a result of its monopoly on international message transmissions, Teleglobe made a profit of $32.9 million in 1983. Investor fears that Teleglobe would lose its monopoly status and therefore be less profitable could stand in the way of its privatization.

Obstacles to Privatization

The companies that are being considered for privatization have total capitalization of roughly $15 billion. In 1983, only $4 billion of common equity was financed in Canadian markets. As a result, any effort to sell federally owned companies would have to proceed slowly or risk destabilizing capital markets.

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While a free market approach to the economy remains a basic element of the Conservative party philosophy, Ottawa appears to be grasping the complexity and difficulty of divestiture. There are already signs that the Tories are reconsidering their proposed large-scale privatization program; recently, Prime Minister Mulroney stated that Air Canada will not be completely sold to private investors. In order to blunt criticism from the Liberals and the public that Mulroney is giving away Canada, we believe Ottawa will sell off profitable firms only if it can also find buyers for the money losers. Since no buyers appear readily available for the ailing firms, the whole privatization program appears to be at risk. At this point, Mulroney may be considering having the government conduct a detailed study of privatization—an effort in keeping with his consensus approach to decisionmaking—which would effectively end the program.

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Greece: Implementing the New Defense Doctrine [redacted]

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On 8 January the Greek Council for Defense and Foreign Affairs (KYSEA) approved a new defense doctrine first announced by Prime Minister Papandreou in mid-December during a meeting of PASOK party members. [redacted] following the December meeting, the basis of the new doctrine is a formal recognition that Turkey, rather than the Warsaw Pact, poses the more serious threat to Greek security. The new doctrine could involve shifts in the deployment of the armed forces to meet the Turkish threat. Although we have no indication yet of detailed plans to implement the new defense policy, we believe it may do little more than formalize shifts in force deployments that have occurred over the last 10 years and give impetus to further modernization efforts. [redacted]

Current Status of Forces

The present disposition of Greek forces reflects a major reorganization and redeployment of the Greek Army following the Turkish invasion of Cyprus in 1974.[1] Currently, two of Greece's 11 infantry divisions and three of its five armored brigades are stationed in Thrace opposite the Turkish border. In addition, some 25,000 troops are assigned to the military commands on the six major Aegean islands—Limnos, Lesvos, Khios, Samos, Kos, and Rhodes. Greek Air Force units are located primarily in the central-eastern and southern portions of the country. [redacted]

The New Defense Doctrine

On 17 December a Greek Government spokesman confirmed press reports that Prime Minister Papandreou, during a meeting with PASOK party members, had announced that "a rearrangement of the armed forces" was being worked out because of his belief that Turkey, rather than the Warsaw Pact, poses the more serious threat to Greek security. 25X1

Subsequently, on 8 January, in a statement released following a meeting of the KYSEA to review the new defense doctrine, the government reaffirmed its adoption of a new doctrine but made only unspecific references to needed improvement and modernization programs in the three military services. [redacted] 25X1

The December and January announcements are the latest in a number of recent moves by Papandreou to underscore his contention regarding the Turkish threat. [redacted] 25X1 25X1

The Greeks canceled a joint exercise with US Army Special Forces units in August 1984 because of Athens' contention that it was directed against the Warsaw Pact and did not take into account the threat from Turkey. [redacted] 25X1 25X1

Senior Personnel Changes

Nearly simultaneously with the December announcement on the defense doctrine, the government also unveiled a series of senior officer changes in all three services. Although there are conflicting reports on Papandreou's motives behind

[1] Prior to the invasion, Greek forces were spread out primarily along the borders with Albania, Yugoslavia, and Bulgaria. In response to the invasion, the Greeks mobilized over 180,000 troops and moved forces into Thrace and onto their Aegean islands. Subsequently, most of these troops were demobilized, and some units were pulled back from the Turkish border. In 1976, however, a fourth Army corps—D Corps—was created to defend the border with Turkey. Between 1974 and 1978, to counter a possible Turkish invasion of the Aegean islands, the Greeks also began building up military installations on the six major islands. [redacted]

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Figure 1
Disposition of Major Greek Army Units, March 1974

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Figure 2
Disposition of Major Greek Army Units, June 1984

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these shifts,[2] the new service chiefs appear to be more amenable to Papandreou's viewpoint than their predecessors. Although General Kouris, the new Chief of the General Staff, served in key positions in previous conservative governments, [redacted] Papandreou holds him in high esteem. He also has been noted for his hardline, nationalistic approach to relations with the United States. The new Air Force Chief of Staff, General Apostolakis, appears to be sympathetic toward the Socialist government, [redacted] who retains his post, was promoted by Papandreou to his current assignment in 1982 over several more senior officers. In our judgment, Army Chief of Staff Pentheroudakis, in contrast to other Army generals, probably is either sympathetic or neutral toward

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[2] [redacted] the government retired at least some of the senior officers, particularly former Army Chief of Staff Kourkafas and possibly Navy Fleet Commander Giokezas, because of their disagreement with Papandreou's new policy. Sources of the US Embassy recently indicated, however, that the personnel changes reflected government concerns about conspiratorial activity in the military. [redacted]

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[redacted] many officers seem to view him as nominally supportive of Papandreou. More important, under the promotion law, Pentheroudakis's appointment forced the retirement of a number of other highly qualified senior officers who have been supportive of US and NATO interests. [redacted]

Implementing a New Defense Doctrine

We have no indications yet of Papandreou's specific plans for implementing his new policy. Although government spokesmen have stated that NATO-assigned forces will not be reoriented, we believe that Papandreou probably has not entirely ruled out the possibility of redeploying troops. In this area his options range from demonstrative moves—involving small-scale unit redeployments, either in Thrace or on the Aegean islands—to a major reorganization that would substantially beef up forces opposite the Turkish border. [redacted]

Redeployment Options. Should Athens decide to move entire divisions into the C or D Corps areas in Thrace from their current locations, they would most likely come from the B Corps area opposite Yugoslavia. This would, however, leave one infantry division opposite most of Yugoslavia. Moreover, this option would be very costly. Relocation of an entire division would have to be preceded by a major program to build new barracks, logistics and maintenance facilities, headquarters buildings, and other support facilities. We doubt that the Greek Army could afford a construction project of this magnitude without a substantial reordering of budget programs that would likely impact heavily on procurement. [redacted] any further weakening of Greek defenses against Yugoslavia or Bulgaria also would be considered a dangerous move by the military; it would be highly visible, and, if detected by the Turks, could precipitate a Turkish response in kind. [redacted]

A more feasible alternative would be to move selected battalions into C or D Corps from various divisions in A or B Corps. A variation of this scenario would be to move a battalion or brigade from C Corps into D Corps. If the Greeks were interested in moving more armor to face the Turkish threat, the only unit not already located in the C or D Corps areas is the 24th Armored Brigade at Litokhoron. [redacted]

Athens also could deploy additional battalion-sized units onto the Aegean islands, a move that would have less visibility and political impact. Although this more limited option would create additional support problems, it would enable Papandreou to demonstrate his resolve at relatively low cost while minimizing the impact on the Army and thus possibly avoiding resistance within the officer corps. It would also be more difficult for the Turks—and the United States—to detect. [redacted]

Modernization Options. As part of their implementation of the new defense doctrine, the Greeks may consider sending some of their newer Army equipment to the Aegean islands as well as into Thrace where most of it has gone in recent years. In [redacted] putting them in a position to be used against Turkey as well as the Warsaw Pact. Because of funding constraints, however, we believe it would be difficult for the Greeks to accelerate the pace of their modernization programs. [redacted]

Domestic and Regional Repercussions

Papandreou's recent moves have produced an unusual level of hostile dialogue in domestic politics and strong criticism from opposition leader Mitsotakis. Nonetheless, Papandreou undoubtedly hopes the new policy will bolster his chances for reelection. Greeks across the political spectrum see Turkey as a threat, and the opposition may have a difficult time convincing voters otherwise. Moreover, even centrist voters are ambivalent toward the United States and NATO, which many of them believe have favored Turkey in recent years. [redacted]

The military, however, is a different matter. Despite the recent senior personnel changes, we believe Papandreou could not count on the assent of his

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Key Greek Military Command Changes [a]

	New Position	Previous Position
Gen. Nikolaos Kouris	Chief of Staff, National Defense General Staff	Air Force Chief of Staff
Adm. Theodoros Deyiannis	Retired	Chief of Staff, National Defense General Staff
Lt. Gen. Dimitrios Apostolakis	Air Force Chief of Staff	Tactical Air Force Commander
Lt. Gen. Epaminondas Pentheroudakis	Army Chief of Staff	D Corps Commander
Lt. Gen. Vassileios Kourkafas	Resigned	Army Chief of Staff
Vice Adm. Ilias Perissakis	Navy Fleet Commander	Deputy Chief, Navy General Staff
Vice Adm. Athanasios Giokezas	Retired	Navy Fleet Commander

[a] Of the major military commanders, only the Navy Chief of Staff, Vice Adm. Nikolaos Pappas, has retained his post.

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officers should he decide to redeploy forces either in Thrace or to the Aegean. The new service chiefs probably would support continuing force modernization opposite Turkey, some shifts in resources, moving some of the Army's newer equipment to the Aegean islands, or the shifting of some troop units. But we believe they would be uncomfortable with a major troop redeployment. Moreover, the officer corps, as a whole, remains essentially conservative in its outlook and is likely to continue to regard the Warsaw Pact as a primary threat.

Army Chief of Staff Pentheroudakis will likely play a decisive role because he leads the largest and most conservative branch. We believe that Pentheroudakis—although at least tolerant of PASOK politically—is still very much in the traditional mold of Greek Army officers—anti-Communist and pro-US—even if he is not as vocal as others in expressing these sentiments. He and other officers, in our judgment, would resist wholesale redeployment by privately protesting to President Karamanlis, resigning, or even publicly criticizing the government.

For its part, Turkey has reacted stiffly to Papandreou's new defense doctrine. Government leaders have explicitly questioned Greece's utility to the Alliance, and a Foreign Ministry spokesman has claimed that Turkey will take the necessary measures to respond to Greek redeployment. We believe he was warning in particular against stationing troops on Greek islands that have been demilitarized under international treaty. 25X1

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Implications for NATO

If Greek ground forces were substantially reoriented to the east rather than to the north, the repercussions for NATO in the event of a conflict with the Warsaw Pact would be serious. Under the current deployment of Greek troops, two weeks would be needed to move troops from eastern Greece to defend against a Warsaw Pact attack through either Albania or Yugoslavia. The Greek Army also would need extensive Allied assistance (additional troops, fuel, ammunition, and spare parts) to counter a combined Soviet-Bulgarian-Romanian attack. If, as a result of the new defense doctrine, more troops were located in the east, redeployment back to the west to defend against a Warsaw Pact attack through either of those countries would take even longer and support problems would multiply. 25X1

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From a broader political standpoint, we believe NATO Allies are likely to be even less sympathetic to Greek security concerns than they have been in the past if NATO-committed Greek units are redeployed. The Belgians, West Germans, British, and Italians have previously expressed growing annoyance that Greek-Turkish bilateral differences have undercut Alliance efforts to conduct joint military exercises. A major redeployment of Greek forces would probably draw sharp criticism from them and other Alliance members and serious questioning of Greece's future role as a full partner in the defense of Europe. 25X1

At the same time, we believe it is unlikely that the West European Allies would do anything to fill the defensive gaps in the southern flank caused by a Greek redeployment. Alliance defense and reinforcement priorities continue to be focused on central Europe, and we doubt that other European Allies would be willing to divert resources to the southern flank. We believe, however, that they would be just as reluctant to tilt toward Turkey as the sole defender of the eastern Mediterranean. In our view, they will not want to be placed in the position of having to choose between Athens and Ankara, and will view inaction as the best course of action. 25X1

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Poland: The Price Increase Dilemma

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Warsaw will begin raising food prices, probably in March, as part of its plan to hike overall retail prices by 12 to 13 percent this year. The regime successfully broke the taboo on food price hikes in 1982, but lingering fear of worker reaction has blocked price increases sufficient to reduce budget subsidies. Although Warsaw is now more astute in blunting public reaction, the price hikes could still provide the occasion for disgruntled Poles to demonstrate unhappiness with the regime's political and economic policies.

Past Price Policies

Implementation of price increases, especially for food, has presented major political difficulties for successive Polish governments. Warsaw's effort to increase retail prices abruptly in December 1970—mainly to reduce domestic demand for food—caused worker protests that led to repeal of the increases and the resignation of party leader Gomulka. After more than five years of stable prices, the Gierek regime in June 1976 again tried to raise prices primarily to cut down on budget subsidies. A series of violent demonstrations near Warsaw and in Radom led to the cancellation of the price hikes and a weakening of regime authority. Wary of risking further demonstrations, the regime during the rest of the 1970s implemented modest food price increases—averaging less than wage hikes except in 1978 without publicity and often by resorting to subterfuge such as repackaging products and selling more goods in higher priced commercial stores. The government tried again in July 1980 to implement price hikes, but for the third time in 10 years was foiled by worker protests.

The Polish Government finally broke the taboo on formal price hikes in February 1982, when it successfully implemented food price increases to reduce consumer subsidies, lessen the growing demand for high-quality foods, and cut down on hoarding and waste. Despite considerable grumbling and regime anxiety about popular reaction, there were no significant public demonstrations because of tight martial law controls and the government's tactics. The authorities softened the blow by increasing money wages from 10 to 30 percent, staging three months of "consultation" to allow an airing of public views, and reducing the increases from what had originally been planned. The regime attempted to ease the population's fears concerning possible large decreases in the standard of living, but still allowed real wages to decline by almost 25 percent and per capita consumption of meat, eggs, and vegetables to fall by about 10 percent each. All segments of the population had to spend an increased portion of their budgets for food at the expense of clothing, health, culture, and recreation. 25X1

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Post-Martial-Law Price Increases

The government avoided large, announced price increases in 1983 probably because of the many complaints about falling living standards in 1982 and because it was cautious after lifting some martial law controls in December 1982. Although the regime allowed prices of nonfood items to increase throughout the year by 22 percent without publicity—much higher than the 15 percent planned—it permitted wages to grow by even more. The government froze the price of staple food products, even though it earlier had warned of possible increases due to higher procurement prices. The only officially announced price increases were for a handful of luxury goods such as alcohol, cigarettes, and coffee. Much of the rise in retail prices came early in the year and mainly because many firms still were able to justify large price hikes on consumer goods to the central price authorities. More worker complaints prompted Warsaw to freeze the prices of many consumer goods and to prohibit any large price hikes. 25X1

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Table 1
Poland: Retail Price Changes of Consumer Goods and Services

Percent change from the previous year

	1979	1980	1981	1982	1983	First Six Months of 1984
Total	**6.7**	**9.1**	**24.4**	**101.5**	**23.1**	**14.1**
Consumer goods	7.4	8.5	18.4	109.4	21.9	12.2
Foodstuffs	8.5	10.0	14.6	162.8	13.1	16.0
Cereal products	9.9	10.6	53.8	69.8	1.4	22.9
Fruit and products	0.0	5.5	35.6	103.6	18.7	15.1
Vegetables and products	6.6	29.7	15.7	77.4	35.4	19.5
Meat and fats	12.2	13.9	3.0	241.7	6.7	16.0
Dairy products	0.9	3.8	14.4	224.9	8.0	4.7
Sugar and confectionary	13.6	5.3	5.3	176.5	20.8	12.2
Alcoholic beverages	10.7	5.2	52.1	90.5	43.4	7.0
Nonfoodstuffs	6.0	8.5	10.9	85.6	22.3	11.3
Clothing	5.8	6.8	8.6	57.7	16.9	5.3
Footwear	5.8	10.9	7.9	76.1	16.7	4.1
Household articles	4.6	5.1	4.2	141.5	18.2	12.4
Fuel	0.0	0.2	0.0	239.8	7.6	0.3
Tobacco products	3.7	2.9	3.3	59.6	47.0	19.8
Building materials	4.0	1.4	1.0	228.3	13.6	8.9
Services	6.9	8.4	27.1	102.1	26.3	25.6

The population's standard of living improved marginally in 1983. Real wages increased 1 percent, although real retirement pay decreased 5 percent. The overall price of food increased only 13 percent while nonfood prices rose 22 percent. Food sales increased by nearly 3 percent and nonfood sales by 15 percent because of a good harvest and regime priority to supply more consumer goods to the market. Per capita consumption of major foods stabilized or fell much less than the previous year, but the consumer continued to spend much more of the household budget on food than in 1980.

The regime further eased up on the consumer in 1984, allowing retail prices to increase only 13 percent. Food prices were officially raised by 9 percent in February, and enterprises again were allowed to hike prices of some nonfood items by less than 10 percent throughout the year. To avoid protests over the food price increases, Warsaw used the same tactics as in 1982. The government held three months of public discussion on two variants, which would have hiked prices by 10 or 15 percent. The government responded to complaints by adopting an even lower variant and reducing planned increases on staple goods. Solidarity made no effort to organize formal protests, but the church issued an unusual statement that criticized price increases as the wrong way to deal with inflationary pressures. Direct compensation for the food price hikes, although more modest than in 1982, included increased pensions and a one-time payment to low-income families. Enterprises were allowed to increase wages throughout the year.

This combination of wage and price policies allowed consumption to remain at high levels and further increased budget subsidies. With prices rising only 13 percent and money wages 20 percent, real wages increased about 6 percent. Payments to retirees rose

Table 2
Poland: Per Capita Consumption of Major Foodstuffs

	1979	1980	1981	1982	1983
Cereals *(kilograms)*	120.0	127.0	121.0	119.0	122.0
Fruit *(kilograms)*	42.8	37.7	32.4	42.8	38.0
Vegetables *(kilograms)*	119.0	101.0	118.0	107.0	103.0
Meat and fats *(kilograms)*	73.0	74.0	65.0	58.5	58.2
Milk *(liters)*	264.0	262.0	257.0	247.0	277.0
Eggs *(number)*	221.0	223.0	227.0	200.0	198.0
Sugar *(kilograms)*	43.9	41.4	33.4	41.7	45.0
Vodka *(liters)*	5.5	6.0	4.3	4.2	4.1

Formal Price Increases Before and Under Martial Law

December 1970	*Up to 30 percent on food, fuel, and clothing.*
June 1976	*Average increases of 25 percent on food.*
July 1980	*As much as 100 percent on certain cuts of meat.*
February 1982	*Average increases of 150 percent on food.*
	More than 200 percent on fuel and energy.

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in real terms by about 10 percent. Despite greater supplies in the market—partly because of a near-record harvest—the increases in incomes exacerbated the imbalance between supplies and demand. Budget subsidies grew by 19 percent from 1983 levels as the regime failed to pass on to the consumer the costs of higher procurement prices for farm goods.

Moderate Price Hikes in 1985

The regime has pledged to keep retail price increases at a moderate 12 to 13 percent in 1985 and as part of that policy is planning price increases on many staple foods. Three price proposals that have been publicized to elicit consumer reaction would raise the cost of living by 3.2 percent to 4.1 percent. The two more expensive proposals combine increases in prices with removal of rationing on many items, except meat and chocolate. The regime—benefiting from three years of good harvests—can easily eliminate the controlled sales of many items because of adequate supplies. Prices of heating and energy also may increase by 20 to 30 percent. Warsaw will again try to soften the blow by providing pension hikes and compensation for low-income workers. Under one proposal, over 15 million workers would be entitled to some compensation. The government has also extended the ban on enterprises raising the price of any consumer good by more than 10 percent.

The public, not surprisingly, has criticized the price increases, but does not appear inclined to stage large-scale demonstrations. Underground Solidarity leaders have called for symbolic 15-minute work stoppages at noon on 28 February to protest the price hikes. The promise of compensation probably has soothed many Poles, especially retirees. Warsaw apparently will scale back some of the price increases—as it did last year—to look responsive to workers' concerns and to try to give credibility to the government-sponsored trade unions, which have criticized the increases and demanded wage hikes. The regime is still wary of public reaction, however, and probably will increase police presence on the streets, as it has before. 25X1

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Outlook

The government seems reluctant to attempt more than one annual round of price increases although many food and consumer goods remain heavily subsidized. Even if the regime had implemented the most expensive proposal, prices of most staple goods would remain about 30 to 40 percent below actual production costs. Since farm procurement prices are likely to rise again in July and firms will need

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Table 3
Poland: Standard-of-Living Indicators

Percentage change from the previous year

	1978	1979	1980	1981	1982	1983	First Nine Months of 1984
Money wages	6.3	9.0	13.4	27.3	51.3	24.5	20.2
Retirement pay and pensions	14.6	11.0	8.9	23.6	69.9	17.1	23.8
Retail prices	8.7	6.7	9.1	24.4	101.5	23.1	13.0
Real wages	−2.2	2.2	3.9	2.3	−24.9	1.1	6.4
Real retirement pay and pensions	5.4	7.8	−0.2	−0.6	−15.7	−5.0	9.6
Retail sales of goods (constant 1978 prices)	1.2	2.6	1.4	−4.6	−17.4	9.0	8.0
Foods	3.1	4.6	−0.3	−9.4	−14.3	2.7	2.0
Nonfoods	−1.7	2.9	2.0	6.8	−25.2	15.4	8.0

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Table 4
Poland: Proposed Retail Price Changes on Major Foodstuffs, March 1985

	Present Price *(zl)*	Variant I *(percent increase over present prices)*	Variant II [a] *(percent increase over present prices)*	Variant III [a] *(percent increase over present prices)*
Meat *(kilograms)*	110-360	15	10	10
Flour *(kilograms)*	29	24	41	41
Rice *(kilograms)*	44	41	41	41
Bread (0.8 *kilograms*)	20	10	30	30
Milk *(liters)*	1	9	0	0
Cheese, Cheddar *(kilograms)*	220	8	0	0
Butter (0.25 *kilograms*)	78	8	28	28
Margarine (0.25 *kilograms*)	28	4	0	0
Animal fat (0.25 *kilograms*)	33	15	67	67
Sugar *(kilograms)*	52	25	44	73

[a] Variant II would eliminate the rationing of flour and fats. Variant III would abolish almost all controlled sales, except for chocolate and meat.

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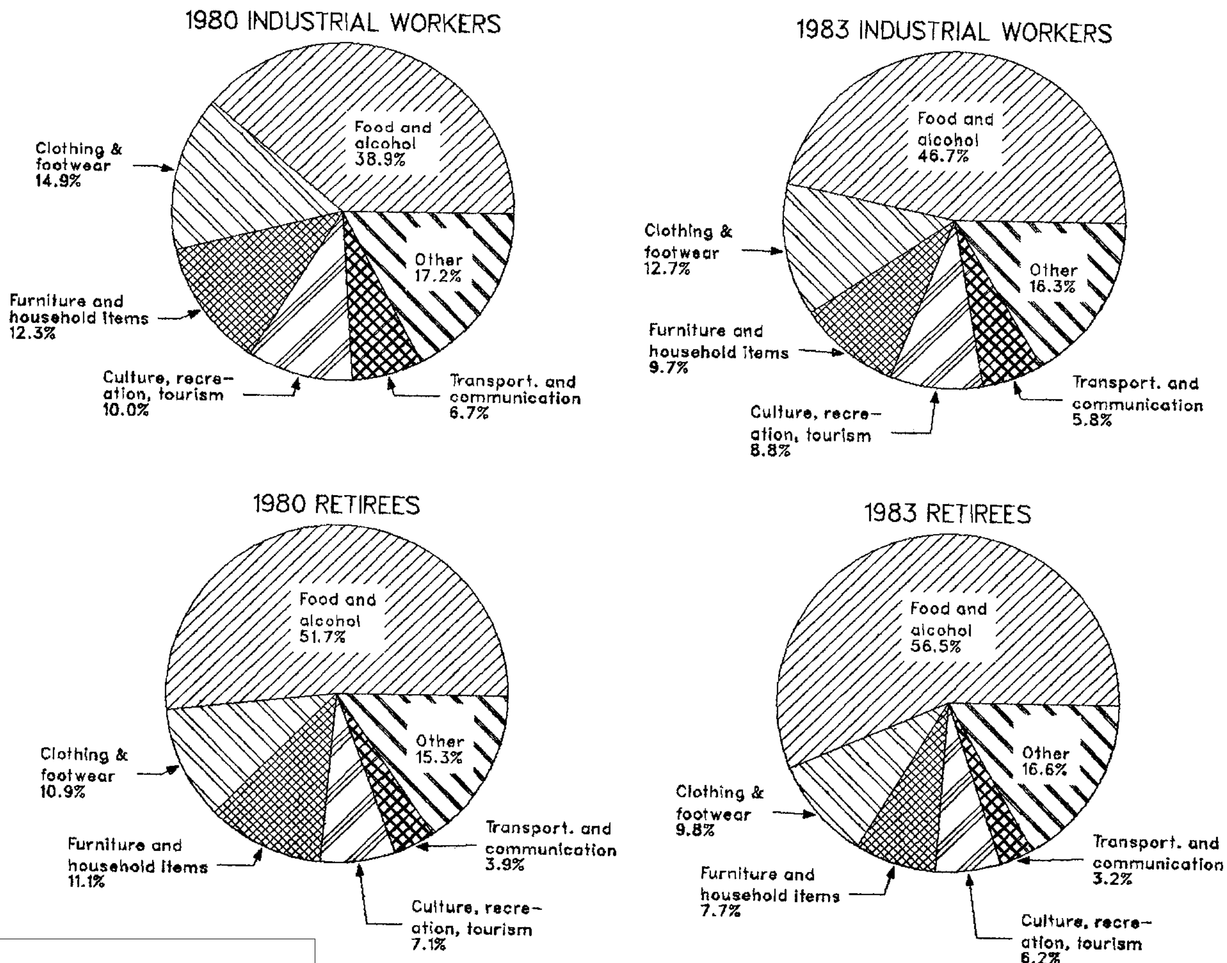
POLAND: TYPICAL HOUSEHOLD BUDGET



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increased subsidies if they cannot raise prices by more than 10 percent per year, total subsidies by the end of 1985 will likely be more than the present 33 percent of the budget. This price policy will cause consumer demand to remain both high and unsatisfied, thus eroding worker incentives and increasing black-market activities.

Price setting will continue to be a politically charged issue in Poland, even after the phased implementation of this year's price increases. Underground Solidarity recently has warned that it will oppose any IMF program (which probably would include price increases) that would lower the standard of living. As a result, the yearly rounds of public consultation on price variants and increased regime apprehension about worker response are likely to remain a fixture of Polish domestic life for many years. A danger is that the authorities may become complacent and misread the public mood. Increasingly annoyed by continual price hikes, the public might react with anger over small increases that, under other circumstances, it might have quietly accepted.

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Economic News in Brief

Western Europe

French aid for service exports: Paris plans to encourage foreign sales in services such as engineering, insurance, transportation, and communications among others . . . aid will probably involve insurance as well as export financing . . . policy appears to anticipate multilateral negotiations over such trade.

Italy's current account deteriorating: The current account moved into balance in the third quarter of 1984, bringing the seasonally adjusted deficit to $1.5 billion for the January-September period, compared with a $800 million surplus for the same period of 1983 . . . the turnaround primarily reflects a nearly $2 billion deterioration in the trade deficit . . . given a record November trade deficit and the seasonal weakness of services in the fourth quarter, the current account deficit is likely to hit almost $2 billion for the year.

Portuguese "jumbo" loan: Lisbon is asking international bankers to participate in a $500 million credit to help finance its current account deficit, expected to reach $1 billion for 1985 . . . half the credit will be a usual syndicated loan with an eight-year term and interest five-eighths of a percentage point over LIBOR, while the other half will be a revolving credit priced at three-eighths of a percentage point over LIBOR for the portion drawn . . . the Portuguese probably chose this route to attract financing for the cheaper revolving standby facility.

Price increases in Greece: Athens raised prices for fuel and electricity between 12 and 16 percent, effective in mid-January . . . increases are less than the 18-percent rise in inflation projected this year . . . Athens is apparently attempting to control the inflation rate in this election year. 25X1

East Germany

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East Germany buys West German oil: To combat the worst cold weather energy shortages since 1978-79, East Berlin has bought at least 140,000 tons of West German coal, its first significant purchase since 1981 . . . power shortages are probably responsible for a decline in the growth of industrial production in January . . . the East Germans apparently used normal trade channels to buy the coal, probably indicating no change in the intra-German economic relationship. 25X1

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Looking Ahead

March

Austria

Communal elections in Carinthia *on 17 March could indicate extent of popular support for "national" wing of Freedom Party (FPO) . . . Joerg Haider, provincial party chairman, has objected to Defense Minister Frischenschlager's apology for welcoming former POW and war criminal Reder . . . Haider using issue to attack FPO national chairman Steger, proponent of a "liberal" course and the coalition with Socialists.* 25X1

April

France

Parliament reconvenes *on 2 April . . . main issue will be electoral reform that would increase proportional representation in legislative elections . . . could strengthen smaller parties and make it easier for the Socialists to find coalition partners.* 25X1

Turkey

Prime Minister Ozal will visit Washington *2-4 April for official talks . . . likely to request increased economic and military assistance and removal of import quotas on Turkish textiles . . . also will urge US support for Turkey's positions in disputes with Greece and on Cyprus and Armenian terrorism.* 25X1

United Kingdom

Foreign Secretary Howe is traveling to East Germany and Poland *in early April . . . part of London's higher profile in East-West relations . . . Foreign Secretary's talks could set stage for visits to Eastern Europe by Prime Minister Thatcher later this year.* 25X1

Spain

Socialist trade union chief Nicolas Redondo will attend meeting in Washington *on 11-12 April . . . Redondo supports Prime Minister Gonzalez on economic policies . . . opposes NATO membership.* 25X1

Canada

External Affairs Minister Joe Clark will visit Moscow *in April . . . interested in discussing arms control and disarmament situation, but will speak in a more pro-NATO style than his predecessors . . . also likely to promote sale of Canadian grain and oil and gas equipment.* 25X1

United Kingdom

Home Office official in charge of government's antidrug efforts will visit Washington *from 8 to 14 April . . . drug problem getting increased media attention in United Kingdom . . . London is anxious to step up efforts to stem traffic in narcotics.* 25X1

Turkey

24 April marks 70th anniversary of "genocide" of Armenians *in Ottoman Turkey, according to pro-Armenian groups . . . date has been occasion of violent attacks against Turkish diplomats abroad . . . Ankara is concerned US Congress will pass resolution commemorating the alleged genocide.* 25X1

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